

Power Up: Collateralized Loan Obligation

A quick primer to charge your private markets portfolio

THE CONCEPT

We define a Collateralized Loan Obligation (CLO) as a security backed by an actively managed pool of senior secured loans which are packaged and sold off in tranches to investors.

WHY CONSIDER CLOs?

- CLOs are an over \$1.2TN¹ global asset class with actionable investment opportunities across all floating rate debt tranches (rated AAA to BB), & the underlying equity
- CLOs make distributions quarterly, typically starting 5-8 months from closing, with investments serving as a strong source of current income
- CLOs have a multi-decade track record of withstanding market shocks including the Global Financial Crisis (“GFC”) & COVID-19

CLOs: HOW THEY WORK

1. A loan manager constructs a loan portfolio.
2. The capital needed to purchase the CLO loan portfolio is typically raised by issuing CLO debt tranches and CLO equity.
3. Investors globally will invest in different parts of the CLO depending on return targets and ratings requirements.
4. The cash flows generated by the loan portfolio are distributed to the CLO Securities, pursuant to a priority of payments.

OUR CARLYLE CLO TEAM

The largest CLO manager globally²

25YR+

Track record managing CLOs

\$52BN+

Liquid Credit AUM

30+

Credit research analysts

Source: Carlyle. As of June 30, 2024

ILLUSTRATIVE CLO LOAN PORTFOLIO			ILLUSTRATIVE CLO SECURITIES	
	PAR AMOUNT (MN)	ANNUAL CASH FLOW (MN)		Annual Interest Due (MN)
Diversified Portfolio of Loans \$[400]MN			\$256MN AAA: 63% SOFR + 137 bps	\$(16.3)
	Interest Income	\$34.0	\$48MN AA: 12% SOFR + 165 bps	\$(3.2)
	Less: CLO Expenses	\$(0.2)	\$24MN A: 6% SOFR + 195 bps	\$(1.7)
Average Rating [B/B+]	Less: CLO Manager Fees [45 bps]	\$(1.8)	\$24MN BBB: 6% SOFR + 330 bps	\$(2.0)
	Available Interest Proceeds	\$32.0	\$16MN BB: 4% SOFR + 575 bps	\$(1.7)
Weighted Average (“Wtd. Avg.”) Spread of 3.50% plus SOFR	Weighted Average Cost of Debt (“WACD”)	176 bps	\$38MN Equity: 9% (Excess)	Residual Payment \$7.1 (~12-16% target net IRR)
All-in-Coupon ~8.5%	Residual Payment	\$7.1		

For illustrative purposes only. Please see page 2 for full disclosures and assumptions.

KEYS TO OUR APPROACH

Liquid Credit is integral to Carlyle’s Global Credit platform, with a 25+ year track record managing loans at Carlyle. Carlyle is the largest CLO manager globally with programmatic issuance in the CLO market.²

A Leading Player in the Liquid Credit Market

~\$20 billion in yearly loan trading activity in 2023³ and an average of \$1 billion in fees paid to the Street over the past three years⁴

Rigorous Credit Selection

30+ credit research analysts across the U.S. and Europe focused on fundamental bottom-up credit analysis, aiming to avoid defaults, maximize recoveries & preserve credit quality

Demonstrated Capital Deployment Capabilities

Approximately \$2.3 billion of third-party CLO investments⁵

We have seen a record year of retail demand for CLO product and floating rate product. It’s the first time we have seen some democratization of institutional product in the CLO market finally being offered to retail investors.



Lauren Basmadjian
Managing Director,
Global Head of
Liquid Credit

Past performance is no guarantee of future results. For illustrative purposes only. There can be no assurance that Carlyle will be able to implement its investment strategy or achieve its investment objectives. Diversification does not eliminate the risk of loss. All data is as of September 30, 2024 unless stated otherwise.

1. Citi Research as of September 30, 2024. There can be no guarantee these trends will continue. Represents the views of Carlyle.
2. Creditflux as of June 30, 2024. Only closed CLO transactions are included.
3. Source: Carlyle Internal Sources as of December 31, 2023.
4. Carlyle treasury as of January 2024. Figure is the aggregation of fees paid to banks from Real Assets, Corporate Private Equity and Global Credit segments as well as any Fund or Firm related bank fees (excluding interest expense related to line of credit borrowings).
5. CLO AUM represents fair market value (“FMV”) as of June 30, 2024.

DISCLOSURES

DISCLOSURE FOR ‘CLOs: HOW THEY WORK’ ILLUSTRATION: Past performance is not a guarantee of future results. As of September 9, 2024. Assumptions include: Deal expenses of 5bps, Senior Loan Manager fees of 15bps, Subordinated Fees of 30bps. 1) For illustrative purposes only. There can be no assurances that the Fund will receive residual payments from any CLO issuer. This example is provided to demonstrate a traditional CLO structure and is not representative of any Carlyle CLO or the projected returns of any Carlyle CLO. Residual payments do not reflect any carried interest, management fees, taxes, transaction costs and other expenses (“Fees & Expenses”) to be borne by certain and/or all investors, which will reduce returns and, in the aggregate, are expected to be substantial. The IRR figures presented in the above graph are intended to demonstrate the mechanics of the waterfall, are not necessarily representative of performance, and were not actually achieved by an investor. Subject to change at Carlyle’s discretion. For a description of such Fees & Expenses, please see Part II of Form ADV maintained by Carlyle’s registered investment advisor, Carlyle Global Credit Investment Management L.L.C., a copy of which will be furnished to each investor prior to its admission to a Fund.

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